

VZCZCXRO6439
PP RUEHDBU
DE RUEHKV #4251/01 3171521
ZNY SSSSS ZZH
P 131521Z NOV 06
FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC PRIORITY 0373
INFO RUEHZG/NATO EU COLLECTIVE
RUCNCIS/CIS COLLECTIVE

S E C R E T SECTION 01 OF 02 KYIV 004251

SIPDIS

SIPDIS

E.O. 12958: DECL: 11/13/2016
TAGS: [PGOV](#) [PREL](#) [UP](#)
SUBJECT: UKRAINE: YANUKOVYCH LAYS MARKERS FOR COOPERATION
WITH PRESIDENT. HRYTSENKO IMPERILED?

REF: A. 04 KIEV 3753
[B](#). KIEV 3425
[C](#). AMBASSADOR-A/S FRIED EMAIL OF OCT 13

Classified By: Ambassador for reasons 1.4(a,b,d).

[1](#)1. (C) Summary. During a long Sunday afternoon lunch with Ambassador November 12, Prime Minister Yanukovych said that while President Yushchenko held up general, vague concepts like the guarantee of Ukrainian independence as the benchmark for cooperation with the Yanukovych government, the Prime Minister was focused on concrete issues. In particular, there were two issues standing between cooperation with the President--a law on minority shareholders and alleged corruption within the MOD. Yanukovych confirmed that there was a three to four hour meeting scheduled for November 13 between Yanukovych and Yushchenko to decide whether cooperation was possible. Yanukovych also described Russian President Putin as uncomfortable with Yanukovych as Prime Minister, because the latter's popularity with the Russian people made it hard for Putin to be tough on Ukraine.

[1](#)2. (C) Comment: Yanukovych invited Ambassador for tennis and lunch on November 12. The PM was very relaxed and confident in his tennis game, which he had only learned a couple of years ago. The tennis and lunch, which included Yanukovych's older son Oleksandr--a doctor in Donetsk--seemed primarily to be a get-to-know you event, two days after Ambassador spent a marathon session at President Yushchenko's dacha (septel). But when Ambassador raised issues of government and presidential cooperation, Yanukovych was eager to express his views. Regarding his U.S. trip, Yanukovych confirmed that he would arrive in Washington December 3, have meetings on December 4 and part of December 5, before flying to New York for meetings on December 5 and 6, before returning to Kyiv. End comment.

Shareholder rights....

[1](#)3. (C) Yanukovych described progress on two issues, both related to possible corruption within the executive branch, which he characterized as the litmus tests for cooperation with Yushchenko. The first, according to Yanukovych, was a bill that authorized the government to regulate minority shareholders' ability to block the holding of shareholders' meetings, raising the threshold for blocking a meeting from 40 percent of shares to 50 percent. The Rada had approved the law on October 19, but Yushchenko had vetoed it on November 3. (Note: Head of the Presidential Secretariat Baloha told Ambassador on November 8 that they had been offered two million dollars to ensure signature, but they had refused the money. End note.) Yanukovych, however, countered that the real reason for the veto was to shield corrupt officials and businessmen close to the President.

[1](#)4. (C) Comment: Yushchenko's public justification for the

veto was that the issue of authorizing shareholder meetings should more properly be reviewed as part of an overall reform of corporate governance. Most observers believe the change in the regulation of shareholder meetings was rooted in an attempt to gain control of UkrNafta, in which state-owned NaftoHaz owns 50 percent plus one share, while most of the rest is controlled by oligarch Ihor Kolomoyskiy's Pryvat Group. The GOU has been trying to gain greater control of UkrNafta, whose management is controlled by Pryvat. The allegations of bribery seem improbable, at least if it involves UkrNafta, since Kolomoyskiy, the only private interest involved, would have wanted Yushchenko to veto, not sign the law.

...And alleged corruption at MOD

15. (S) The second issue was that Yanukovych was convinced that Defense Minister Hrytsenko had allowed over a billion dollars in MOD property to be sold without proper authorization. Yanukovych said that he had seen a large file compiled by the Yekhanurov government on this. (Note: Military Intelligence Chief Halaka also told us the week of Nov. 6 that the Cabinet of Ministers' "control mechanism," a probable reference to the Ministry of Finance's Audit-Control Department, had a thick folder on activities within the MOD over the past year and a half. End note.) While Hrytsenko had done a lot of good work on defense reform, said Yanukovych, corruption was unacceptable. Ambassador commented that firing the pro-Western Hrytsenko could be viewed as following orders from Moscow. Yanukovych replied that he would not stand for corruption in his government, but acknowledged that they would need to find a pro-reform replacement for Hrytsenko.

KYIV 00004251 002 OF 002

16. (C) Note: The charges of property manipulation have been bubbling for several weeks, even before the Rada's November 4 move to call Hrytsenko to account; Hrytsenko has publicly claimed that the issue is in part linked to the valuation of properties sold, which is set by the State Property Fund, not the MOD itself. A decision on Hrytsenko's future may come as early as November 14; the Rada has mandated that Hrytsenko and FM Tarasyuk address the Rada on their work, and the Rada may then vote on whether to remove them. Yanukovych suggested to the press over the weekend that he would like to see Tarasyuk removed but would reserve opinion on Hrytsenko until law enforcement bodies passed judgment.

17. (C) Comment: Control over military property has long been subject to political interference, due to the large amount of prime real estate inherited from Soviet times, particularly in Crimea and greater Kyiv. Informed observers claimed that President Kuchma's firing of Defense Minister Marchuk in September 2004, when Yanukovych was PM, was related to the Kuchma team's attempt at regaining control over choice real estate, which Marchuk had resisted (ref A); Kuchma replaced him with ex-Defense Minister Kuzmuk, related by marriage to Kuchma. The Kuchma-Yanukovych era was also marked by many below-market, long-term leases on choice property in exchange for future promises to build housing for military officers, buildings which often never materialized.

18. (C) Comment, continued: Hrytsenko has expended significant energy since February 2005 to undo some of these questionable property deals and sack corrupt generals and MOD civilians he inherited; in fact, Hrytsenko has taken more visible anti-corruption steps than any other minister since the Orange Revolution. In September-October, Hrytsenko and his First Deputy Polyakov told us separately that Yanukovych had exerted no/no policy pressure on the MOD but had tried to force his own candidate into the position of head of the directorate in charge of the MOD's property (ref B). Failing that, Yanukovych had tried to move the entire directorate under the direct control of the PM's office, but Hrytsenko

said he had blocked the effort (ref C). Polyakov told us in mid-October that dismissing officials suspected of corruption was a double-edged sword, since they often sought revenge by feeding information to Regions or going to work for them. For instance, one of the problematic officials Hrytsenko dismissed in mid 2006 offered his services to the new Regions government, securing a job at the Ministry of Finance where he now exerted control over the military budget.

The Russian Relationship: I'm popular north of the border

¶9. (C) Yanukovych claimed that Russian President Putin was uncomfortable with Yanukovych as Prime Minister, because he can no longer pursue the same hard-line policies towards Ukraine as he could when "the Oranges" were in power. Instead, Putin must take into account Yanukovych's popularity with the Russian people and moderate his policies.

¶10. (U) Visit Embassy Kyiv's classified website:
www.state.sgov.gov/p/eur/kiev.
Taylor